



MEET THE MAN BEHIND THE MEGA KIMS DEAL

How Dr M.I. Sahadulla built a hospital network that had the Blackstone group swooping in



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M.I. SAHADULLA,
founder chairman and managing director
of KIMS Health

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Until about a fortnight or so ago, very few people outside Kerala, or those who did not have roots in the state, had heard about the Kims hospital chain or Dr Mohammed Illias Sahadulla, 78, its cofounder. Blackstone Group Inc changed that on 30 October.

In a layered transaction, the \$1 trillion private equity investor invested in Care Hospitals, another South India-based hospital chain, and Care, in turn, invested in Kims Healthcare Management Ltd. The deal created one of India's biggest hospital chains, worth over a billion dollars, pending legal procedures, *Mint* had reported.

Together, Kims and Care have 4,000 beds in 23 hospitals in 11 southern towns. The deal also offers a blockbuster exit for homegrown private equity firm True North, which effectively holds a 43% stake in Kims today, according to one person involved in the deal. He didn't want to be identified. True North reportedly invested \$200 million in Kims in 2017.

Sahadulla started Kims with his brother and businessman E.M.

Najeeb in 2002. The founders, their family members and friends own 30% of the company. Apart from family members and friends, who were early investors, are also existing the company. But the management is expected to remain the same, except for a board seat for Blackstone, according to the person cited above.

“The deal gives True North and other early investors a good exit. Some will gain 32x their investments,” the person said.

WHO IS DR SAHADULLA?

A major reason the big players were drawn to the southern hospital network is Dr Sahadulla, a man who looks more like an athlete than a doctor, thanks to his active life and years playing tennis and badminton. He has a unique story, clean books, an ethical attitude to healthcare, and top environmental, social, and governance (ESG) practices, said Satish Chander, a partner at True North.

“His ethics and values are of the highest order. Kims is consistent with high ratings. He (Sahadulla) had a wide exposure working in the Middle East and wanted to put patients first. This approach interested us,” Chander added.

As a doctor, Sahadulla has earned a rep-

utation for his steadfast dedication to medical ethics. As a businessman, he is known for demonstrating that Indian businesses can grow without losing their morals.

The story of Kims is the story of this doctor who built a hospital chain amid adversity and personal tragedies. Sahadulla was determined to provide quality healthcare in Kerala but struggled to raise funding as banks refused to front him money saying his idea wouldn't make money. Eventually, however, he would go on to build the hospital network that caught Blackstone's eye.

“My father always wanted me to be a doctor,” said Sahadulla, in a recent interview with *Mint*. His father, Illias Moham-

mad, lived in Thiruvananthapuram. They had a successful family business selling locally procured coir to those who exported it out of the country.

There was a personal angle to Sahadulla's dream of becoming a doctor. The family believed top-quality healthcare could have saved the life of his mother, who died young in a private hospital. Further, a cousin who was a role model, became a doctor in the army and encouraged him to become a doctor.

Sahadulla credits his personal growth to nearly three decades spent working abroad, which exposed him to the best medical practices globally. After finishing medical school and post-graduation in Kerala, he studied and worked in the UK. The journey took him from London to Birmingham and Glasgow, and on to a life-changing opportunity in the Middle East. He joined Saudi Aramco, one of the world's largest oil firms.

Sahadulla worked there for 25 years, rising to a management position after joining as an internist. If it was his mother's treatment at a private hospital that made him become a doctor, another personal tragedy, his father's illness, and the treatment he received at a government hospital in Thiruvananthapuram in the early 1990s, led him to return home and establish Kims.

“I never considered entrepreneurship until my father became ill,” he said.

As a chronic smoker, his father suffered from breathing problems. He was brought to a government hospital in his hometown, Thiruvananthapuram, but instead of treating it as respiratory illness, the doctors treated it as a cardiac issue, said Sahadulla. They administered lots of morphine and, according to Sahadulla, excessive doses of morphine are contraindicated for

respiratory issues. His father suffered a respiratory arrest, and although he survived it, he died within a month due to the side effects, he said.

Beyond the misdiagnosis, Sahadulla was also struck by the lack of basic facilities in his hometown. When his father had the respiratory arrest, the family had to lift him up the stairs on a trolley because the lift to the emergency care unit was not working, Sahadulla said.

After his father's death, Sahadulla considered returning to India, and doing something to transform healthcare in his hometown. “Where will I work if I return?” he asked his brother and Kims cofounder EM Najeeb, who was running a hospitality company, Airtel Travel Enterprises India Ltd, at the time. Najeeb promised to set up a hospital for Sahadulla. “I thought it was past time for the city to have a hospital good enough to accommodate doctors like him,” Najeeb said in a recent interview. “From then on, building a good hospital so he can return became the family's top priority.”

CONSTANT OBSTACLES

Banks were initially unwilling to invest in Kims, making it difficult to secure funds. But the brothers held firm in their belief that Thiruvananthapuram and other southern cities lacked quality healthcare.

They bootstrapped the hospital using their own money and funds from their friends. Sahadulla pledged his house, other properties, and life savings from his nearly 30-year career abroad. Najeeb did the same. About 50 city residents, mostly relatives and friends, bought project land by investing ₹2.5 lakh each and got shares in return. Beyond this, the brothers needed institutional borrowing.

“We bought marshy land for the hospital since large land for a reasonable cost was not available. Many investors came to see the place and didn't even want to get out of their car since their shoes would get muddy,” recalled Sahadulla.

Eventually, the public sector Kerala State Industrial Development Corporation (KSIDC) backed the proposal. Using that loan to prove the project's viability, the brothers secured another loan from another state-owned firm, Housing and Urban Development Corporation Ltd (HUDCO). After other banks joined, they got the ₹40 crore investment they wanted.

GROWTH AND EXPANSION

The first Kims hospital opened in six years with about 250 beds. Today, the group has about 2,000 beds in four operational hospitals, in Thiruvananthapuram, Kottayam, Kollam and Perinthalmanna. A 300-bed hospital in Nagercoil, Tamil

WHAT

PE firm Blackstone has acquired controlling stakes in Care Hospitals and Kims Health in a \$1 billion deal. This is Blackstone's first investment in the Indian healthcare services space.

WHY

Dr. M.I. Sahadulla is the driving force behind Kims. He decided to build a top-notch hospital in Kerala after watching his parents suffer from poor healthcare. Soon, it would grow into a chain.

AND

When it started, Kims had little private competition. The chain differentiated itself by focussing on tertiary care in Kerala. It pioneered organ transplants and other complex procedures.

Nadu, just across the border, is expected to be operational by March 2024, making it one of the largest hospital chains in the south. The business has a ₹1,000 crore turnover today with an Ebitda (earnings before interest, taxes, depreciation, and amortization) of ₹250 crore, said Sahadulla. A few things worked in their favour, said the doctor. “One, we began when there were perhaps only one or two private hospitals in the area,” he said. Second, he added, as a city, Thiruvananthapuram was ready for quality health care, even though it cost more.

Kims also differentiated itself by focussing on tertiary care. “We were pioneers in areas requiring specialized equipment, such as organ transplants, micro-incision surgery, and complex procedures like interventional radiology,” he noted.

Today, 60% of the hospital's clientele are from middle- to upper-income groups, mostly earning over ₹10 lakh per annum, with the ability to spend out of pocket on health care, according to internal estimates seen by *Mint*. The rest are corporate customers, and some poor people who avail of subsidized healthcare through charitable foundations.

How did Kims attract and retain good doctors?

“Our doctors recognized early on that

this is a far superior long-term offer,” said Sahadulla. “As a full-timer, your office hours are scheduled. With freelance consultation, they generally do not have a family life. This offered them excellent pay and quality time for family and leisure after work hours. Most of the doctors who were returning from England or the US at the time immediately joined us,” he said.

The business boomed and hit break-even in two years, said Sahadulla. The group started expanding and today, it is one of the two dominant players in the healthcare sector in the state—the other is Dr Azad Mooppan's Aster-MIMS hospital chain.

Private healthcare as a sector has grown over the years in Kerala. Despite the high density and heavy funding of public hospitals—over 7% of total expenditure—the majority of doctors, hospitals and beds in the state are now with the private sector, according to the state planning board. Correspondingly, Kerala also has the highest out-of-pocket expenditure on health in the country, at ₹7,206 in 2019-20, according to data from National Health Authority.

BEYOND BUSINESS

Sahadulla's legacy goes well beyond making a lot of money for his investors. When the government capped the price of cardiac stents in 2017, even one's earnings dropped, except his, said True North's Chander. “Because his mode of pricing was just 25% markup, unlike the exorbitant prices charged by others. He already had a cap installed before the government forced one,” said Chander.

“His quality of consumables, infrastructure, equipment, even space between beds, were all far better than other hospitals,” he added.

During the pandemic phase of the covid-19 outbreak, Sahadulla worked closely with the government. Kims had a whole building converted into a covid care centre, and had the highest number of patients, around 300, during the lockdown in Kerala, said Sahadulla.

Public health experts said that Kims, along with other private hospitals, had no hesitation in providing oxygen, masks, etc., to the government during the crisis, which helped in the state's covid-19 management.

Dr Ekbal Bappukunji, a neurosurgeon and public health expert who served on the Kerala State Planning Commission, recalled that during the pandemic, when the public health infrastructure struggled

to procure resources and care for the poorer and marginalized sections, people like Sahadulla stepped up and offered enormous help.

KEEPING THINGS CLEAN

By his own admission, Sahadulla's challenges, apart from the initial funding bottleneck, had mostly to do with his moral crusade against the unethical practices in the healthcare business. It also became his most important legacy.

Right from the start, Kims established standard practices that made it somewhat unpopular in the medical community as well as with the general public. All transactions were routed through banks, and doctors were banned from availing of commissions in any manner.

“Everybody around me said the business would not take off if I don't leave some leeway for unethical practices. But I wanted to stay away from it as much as possible,” said Sahadulla. “Many people resisted. Even our own doctors resisted.” He admitted, “Back then, for a ₹3 lakh surgery, people were used to paying ₹2 lakh through the bank and ₹1 lakh in cash so you don't have to pay tax,” he said.

“There is such petty corruption going on in healthcare, organ purchase, etc., even today,” he said. “Our biggest achievement is that we never did that. I believe that if you do it with ethics, in a very straightforward manner, healthcare will be much better respected and you'll receive much better profit,” he added.

Soon, other private hospitals in Kerala, most of them started by doctors, also adopted the same business practices, he said.

Sahadulla also had a sharp eye on the business end of things. For instance, Kims strictly prohibits its doctors from working outside the hospital, a typical practice. It also instituted a no-food policy and grew a food and beverages vertical that is today bringing in nearly ₹60 crore every year.

Today, although he owns only a small part of the business, Sahadulla will continue to run it. Asked about the new partnership with Blackstone, he smiled and said that while he won't make much money, he feels vindicated that the firm succeeded against all odds. His sights are on the next goal: listing the firm on the stock market.

“They (Blackstone) believe in legal compliance. When we go for an IPO with them, I think it'll be very advantageous. We will set a very good model...in having ethics and ESG as a principle to follow,” Sahadulla said.

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